

## Memorandum

*Flex your power!  
Be energy efficient!*

**To:** ANN BARSOTTI  
Deputy Director  
Administration & Information Technology

**Date:** October 6, 2008


**File:** P3020-068

THOMAS C. FELLEENZ  
Acting Chief Counsel  
Legal Division

JODY JONES  
Director  
District 3

JAN SMELSER  
Chief  
Division of Procurement and Contracts

TERRY ABBOTT  
Chief  
Division of Design

  
**From:** GERALD A. LONG  
Deputy Director  
Audits and Investigations

**Subject:** Final Audit Report – Information Technology Procurement Audit

Attached is Audits and Investigations' final audit report of the Department's procurement of Information Technology hardware, software, and services. Your written responses have been included as part of the report.

Please provide our office with status reports on the implementation of your audit finding dispositions 60, 180, and 360 days subsequent to the report date. If all findings have not been corrected within 360 days, please continue to provide status reports every 180 days until the audit findings are fully resolved.

We thank you and your staff for their assistance during this audit. If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, Audits and Investigations at (916) 323-7107, or myself, at (916) 323-7122.

Attachment

c: Will Kempton, Director  
Randell H. Iwasaki, Chief Deputy Director  
Frank Maskovich, Deputy Director, Administration, District 3  
Laurine Bohamera, Chief, Internal Audits, Audits and Investigations  
Kemuel Pruitt, Audit Coordinator, Department of Procurement and Contracts

<b>P3020-068</b>
<b>Information Technology Procurement</b>
<b>October 2008</b>

**Gerald A. Long**  
**Deputy Director**  
**Audits and Investigations**  
**California Department of Transportation**

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2. District 3's Response to the Draft Report
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**Summary**

Audits and Investigations (A&I) has completed an audit of the California Department of Transportation's (Department) procurement of Information Technology (IT) applications, hardware, software, and services. The purpose of the audit was to determine if internal controls are adequate to ensure procurement transactions are properly initiated, approved, received, and controlled.

Our audit disclosed that the Department's internal controls with respect to IT procurement are generally adequate, except for the following issues:

- Lack of written desk procedures in the Division of Procurement and Contracts (DPAC).
- Non-Compliance with CAL-Card procedures.

**Background**

This audit focused on the processes and vehicles by which the Department obtains IT goods and services and primarily on the roles played by DPAC and the Division of Information Technology's (HQ-IT) IT Certification Unit in the procurement of IT goods and services for the Department.

DPAC is responsible for the procurement of goods and services, including IT, for the Department. Procurements are made under delegation provided by the Department of General Services.

HQ-IT IT Certification Unit is responsible for ensuring that goods and services comply with Department standards.

**Objectives,  
Scope, and  
Methodology**

We performed this audit in accordance with the International Standards for the Professional Practice of Internal Auditing. The objectives of the audit were to determine whether:

- Policies and procedures exist for the procurement of IT applications, hardware, software, and services, and that these policies and procedures comply with State laws and regulations.
- Separation of duties over the purchasing of IT applications, hardware, software, and services is adequate.
- Initiation of IT purchases and services is adequately controlled.
- Responsible persons approve IT purchases in writing.
- IT purchases are properly justified and certified by HQ-IT.
- Actual expenditures do not exceed authorized amounts.
- Purchases are promptly recorded and accurately recorded.
- Ordered goods and services are properly received and only requested goods and services are accepted.

- Policies and procedures exist to ensure that the Department takes advantage of discounts and rebates offered when purchasing IT applications, hardware, software, and services.
- IT purchase adjustments are properly authorized and promptly and accurately recorded.
- Purchase and contract transactions are adequately reviewed and approved prior to authorization of payment.
- Contracts for IT goods and services are adequately managed.

Our audit scope was limited to the review of IT procurement procedures with DPAC, HQ-IT IT Certification Unit, District 3, Legal Division, and Division of Design (Design). The audit period was July 1, 2006, through June 30, 2007. The procedures performed during the audit included the following:

- Interviews and discussions with appropriate individuals.
- Review of documents related to departmental processes.
- Review of policies, procedures, and guidelines relating to the IT procurement process.
- Tests of IT purchases made through purchase orders, CAL-Card, and contracts.

It should be noted that subsequent to the audit period, a revised CAL-Card Handbook was issued in September 2007. As such, this report will reference criteria that was applicable during the audit period as well as the revised criteria.

## **Conclusion**

Our audit disclosed that the Department has established policies and internal controls with respect to IT procurement that are generally adequate, except for the issues noted below:

- Lack of written desk procedures in DPAC.
- Non-Compliance with CAL-Card procedures.

The Department should address the deficiencies outlined in the bullets above, and in more specific detail, in the findings and recommendations section of this report.

**Views of  
Responsible  
Officials**

We requested and received responses from the DPAC and Design Chiefs, Legal Division's Acting Chief Counsel, and the District 3 Director. These officials have concurred with the findings and recommendations. Please see the attachments for the complete responses.

A handwritten signature in black ink, appearing to read "Gerald A. Long". The signature is fluid and cursive, with the first name "Gerald" and last name "Long" clearly distinguishable.

**GERALD A. LONG**  
**Deputy Director**  
**Audits and Investigations**

**January 11, 2008**  
**(Last Day of Audit Field Work)**

## FINDINGS AND RECOMMENDATIONS

### **Finding 1 – Lack of Written Desk Procedures in the Division of Procurement and Contracts**

The Division of Procurement and Contracts (DPAC) does not have formal written desk procedures for the processing of Information Technology (IT) purchase requests.

The State Administrative Manual Section 20050, Internal Control, states that “State entity heads, by reason of their appointments, are accountable for activities carried out in their agencies. This responsibility includes the establishment and maintenance of internal accounting and administrative controls. Each system an entity maintains to regulate and guide operations should be documented through flowcharts, narratives, desk procedures, and organizational charts. The ultimate responsibility for good internal control rests with management.”

Without written desk procedures, there may be inconsistencies in the timely processing of IT purchase requests causing delays in the procurement process.

DPAC management stated that due to other workload priorities and the existence of other guidelines for processing IT purchase requests, such as the State Contracting Manual and the Department of General Services Purchasing Guidelines, developing written desk procedures has not been a priority. In addition, DPAC has checklists for the analysts’ use; however, usage of the checklists is not required.

### **Recommendation**

We recommend that DPAC develop the needed and required written desk procedures for processing IT purchase requests to ensure that departmental employees implement the process efficiently, effectively, and properly.

### **DPAC’s Response**

DPAC agreed with the finding and is working towards implementing the recommendations. For DPAC’s complete response, please see Attachment 1.

### **Finding 2 - Non-Compliance with CAL-Card Procedures**

CAL-Card cardholders do not always follow proper procedures when making IT purchases. We noted the following deficiencies:

#### District 3

- Purchases were made prior to the preparation and approval of purchase request forms.
- Purchases did not have receiving signatures on the purchase request forms.



**Finding 2 –  
(continued)**

Legal Division

- Purchases were made prior to the preparation and approval of purchase request forms.
- Purchases did not have receiving signatures on the purchase request forms.
- Purchase of a computer cart was incorrectly coded to IT equipment.
- Software was purchased, which was not on the Department IT Standards listing.

Division of Design

- Purchases were made prior to the preparation and approval of purchase request forms.
- Purchases did not have receiving signatures on the purchase request forms.
- Purchase of toner was miscoded to IT equipment.
- Toner was purchased without using the California Strategic Sourcing Initiative (CSSI) contract, which would have saved the Department 40 percent (\$1,459) on the purchase price.

The CAL-Card Handbook sets forth the following requirements for making purchases with CAL-Card:

- Section 1.2.3, (January 2002 version, changed to Section 2.4 in the September 2007 revision) states, “The Cardholder is entrusted with the security and correct use of the CAL-Card and submission of required support documents. The Cardholder must follow the State and departmental procurement policies and procedures and ensure that all purchases are in accordance with these guidelines.”
- Section 1.4.2, (January 2002 version, changed to Section 3.1 in the September 2007 revision) states, “Cardholder reviews the purchase request (PR) before using the CAL-Card to determine that the information on the form is accurate and complete.”
- Section 3.1.3 (January 2002 version, changed to Section 3.7 in the September 2007 revision) requires the PR to be signed and dated by the person receiving goods.

Furthermore, the Department of General Services (DGS), Caltrans Acquisition Handbook and the Caltrans IT Web site provide additional requirements for IT purchases. Specifically:

- The DGS Web site, states that the State's contract with Office Depot, Inc. provides office supplies at contracted pricing and discounts. This contract is mandatory for use by all State of California departments.

**Finding 2 –  
(continued)**

- The Acquisition Manual Section 4.3 states that, “The DGS Procurement Division has awarded the new Office Supplies Contract # 1S-06-75-55 to Office Depot, Inc. The use of this contract is mandatory.”
- The IT Web site states that, “before making an IT purchase, please check the IT Standards List to ensure that IT provides support for the item you are requesting...”

Non-Compliance with the CAL-Card Handbook procedures and other DGS and departmental procurement requirements could result in inaccurate data and a loss of State funds by allowing purchases of unauthorized/improper goods and services.

**Recommendation**

We recommend that District 3, the Legal Division, and the Division of Design:

- Prepare purchase requests prior to making CAL-Card purchases.
- Ensure receiving signatures are entered on the purchase requisition forms.
- Ensure that purchases are properly coded to the correct object codes.
- Ensure that purchases comply with Department IT Standards.
- Enforce the use of the CSSI contracts for qualifying purchases when a mandatory CSSI contract exists.

In addition, DPAC should remind CAL-Card cardholders of their roles and responsibilities and suspend or cancel all CAL-Card cardholders that violate the Department’s procurement procedures.

**DPAC’s Response**

As of September 22, 2008, no actions are identified because this finding will be addressed by a Departmental Management Memo from the Director, which is pending release.

**District 3’s  
Response**

District 3 concurred with this finding. Please see Attachment 2 to this report for the complete response.

**Legal Division’s  
Response**

Legal Division concurred with this finding. Please see Attachment 3 to this report for the complete response.

**Division of  
Design’s Response**

Division of Design concurred with this finding. Please see Attachment 4 to this report for the complete response.

**Audit Team**

Ken Craig, Audit Manager  
Kevin Yee, Audit Supervisor  
David Wong, Auditor  
Laddavanh Southiyanon, Auditor

## **ATTACHMENT 1**

### **DIVISION OF PROCUREMENT AND CONTRACTS' RESPONSE TO THE DRAFT REPORT**

## Memorandum

*Flex your power!  
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To: GERALD A LONG  
Deputy Director  
Audits and Investigations

Date: September 22, 2008

File: P3020-068

From: JAN SMELSER   
Chief  
Division of Procurement and Contracts

Subject: Information Technology Procurement Audit Draft Report

This is the Division of Procurement and Contracts (DPAC) response to the Information Technology (IT) Procurement Audit Draft Report dated August 21, 2008.

### Finding 1 – Lack of Written Desk Procedures in the Division of Procurement and Contracts

**Recommendation:** Develop the needed and required written desk procedures for processing IT purchase requests to ensure that departmental employees implement the process efficiently, effectively, and properly.

**DPAC Response:** In July, DPAC began a complete review of the IT procurement process. Flowcharts were created and checklists were revised. In addition, methods and procedures are being documented for each type of procurement. Revised desk procedures will be distributed to analysts by the end of 2008 and utilization of the checklists will be mandatory. Managers will emphasize the importance of consistency and accuracy in documenting procedures, and continue evaluating processes with procurement staff.

### Finding 2 – Non-Compliance with CAL-Card Procedures

**Recommendation:** Remind CAL-Card holders of their roles and responsibilities and suspend or cancel all CAL-Card holders that violate the Department's procurement procedures.

**DPAC Response:** No actions are identified because this finding will be addressed by a Departmental Management Memo from the Director, which is pending release.

If you have any questions or concerns please contact Joanne Ottens at (916) 227-6042.

c: CPennington  
JOttens  
MNewmarch

## **ATTACHMENT 2**

### **DISTRICT 3'S RESPONSE TO THE DRAFT REPORT**

## Memorandum

*Flex your power!  
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To: GERALD A. LONG  
Deputy Director  
Audits and Investigations

Date: September 18, 2008

From: JODY JONES   
District 3 Director

Subject: Information Technology Procurement Audit (P3020-068)

This is District 3's response to the draft Information Technology Procurement Audit dated August 21, 2008.

### Finding 2 – Non-Compliance with CAL-Card Procedures

#### Recommendation

That District 3 will:

1. Prepare purchase requests prior to making CAL-Card purchases
2. Ensure receiving signatures are entered on the purchase requisition forms
3. Ensure that purchases are properly coded to the correct object codes
4. Ensure that purchases comply with Department IT Standards
5. Enforce the use of the California Strategic Sourcing Initiative (CSSI) contracts for qualifying purchases when a mandatory CSSI contract exists.

#### District 3 Response

District 3 takes the findings of Audits and Investigations seriously. The District recognizes the use of CAL-Cards as a privilege not a right. District 3 will work with the Division of Procurement and Contracts to provide all mandated CAL-Card training to users and approving officials. In addition, District 3 web pages dealing with proper use of CAL-Cards will be updated. A presentation dealing with IT Procurement purchases/issues including the CSSI will be discussed at a future District 3/North Region Branch Chiefs Meeting. An email will be developed and distributed to all District 3/North Region CAL-Card holders and approving officials making them aware of the audit findings and their responsibilities as a CAL-Card Holder and approving official.

Following the issuance of the final audit report, District 3 will implement the above actions.

If you have any questions or concerns, please contact Frank A. Maskovich, Deputy District Director, Administration at 530-741-4234.

## **ATTACHMENT 3**

### **LEGAL DIVISION'S RESPONSE TO THE DRAFT REPORT**



## Memorandum

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To: GERALD A. LONG  
Deputy Director  
Audits and Investigations

Date: September 18, 2008

From: THOMAS C. FELLEENZ  
Acting Chief Counsel  
Legal Division



Subject: Information Technology Procurement Draft Audit Report

This is the Legal Division (Legal) response to the draft Information Technology Procurement Audit Report dated August 21, 2008.

Finding 2 – Non-Compliance with CAL-Card Procedures

Recommendations:

- Prepare purchase requests prior to making CAL-Card purchases.
- Ensure receiving signatures are entered on the purchase requisition forms.
- Ensure that purchases are properly coded to the correct object codes.
- Ensure that purchases comply with Department IT Standards.
- Enforce the use of the CSSI contracts for qualifying purchases when a mandatory CSSI contract exists.

Legal Response: Legal will comply with all the recommendations and ensure that all Cal-Card procedures are followed. The steps taken to date include: 1) training for all Legal Division card holders and approving officials; 2) all Legal Division card holders and approving officials were informed of the audit recommendations and instructed to comply with the Cal-Card procedures. In the future, the Legal Business Manager will continue to monitor that all card holders and approving offices in each office to assure compliance.

Following the issuance of the final audit report, Legal will contact the card holders and approving officials regarding the audit findings and the actions that should be taken to comply with the recommendations.

If you have any questions or concerns, please contact Silvia Russell at 916-651-3680.

## **ATTACHMENT 4**

### **DIVISION OF DESIGN'S RESPONSE TO THE DRAFT REPORT**

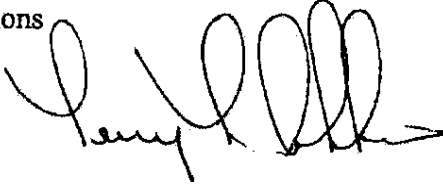
## Memorandum

*Flex your power!  
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To: GERALD A. LONG  
Deputy Director  
Audits and Investigations

Date: September 22, 2008

From: TERRY L. ABBOTT  
Chief  
Division of Design



Subject: Information Technology Procurement Draft Audit Report P3020-068

Division of Design's response to the draft Information Technology Procurement Draft Audit Report P3020-068.

### **Finding 2 – Non-Compliance with CAL-Card Procedures**

**Recommendation:** Prepare purchase requests prior to making CAL-Card purchases, ensure receiving signatures are entered on the purchase requisition forms, ensure that purchases are properly coded to the correct object codes, ensure that purchases comply with Department IT Standards, and enforce the use of the CCSI contracts for qualifying purchases when a mandatory CCSI contract exists.

In addition, DPAC should remind CAL-Card holders of their roles and responsibilities and suspend or cancel all CAL-Card holders that violate the Department's procurement procedures.

**Division of Design's Response:** Reviewed and discussed proper CAL-Card purchasing and coding procedures with current CAL-Card Holders, ensure that the CAL-Card holders sign the received box, the current CAL-Card holders are in receipt of the appropriate Office Depot catalog with the discounted prices, and ensure that staff are properly trained and understand their roles and responsibilities.

If you have any questions, please contact Katie Berringer, Chief, Resource Management and Administration, Project Management at (916) 653-5067.

c: Katie Berringer  
Tim Craggs